

**REPORT OF THE AUDIT OF THE  
MCLEAN COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2010**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE MCLEAN COUNTY SHERIFF**

**For The Year Ended  
December 31, 2010**

The Auditor of Public Accounts has completed the Mclean County Sheriff's audit for the year ended December 31, 2010. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees decreased by \$19,883 from the prior year, resulting in excess fees of \$19,535 as of December 31, 2010. Revenues decreased by \$17,911 from the prior year and expenditures increased by \$1,972.

#### **Report Comment:**

2010-01 Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts, Expenditures, And Reconciliations

#### **Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Kelly Thurman, Mclean County Judge/Executive  
The Honorable Frank Cox, Mclean County Sheriff  
Members of the Mclean County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Mclean County, Kentucky, for the year ended December 31, 2010. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2010, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 24, 2011 on our consideration of the Mclean County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Kelly Thurman, Mclean County Judge/Executive  
The Honorable Frank Cox, Mclean County Sheriff  
Members of the Mclean County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

2010-01 Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts, Expenditures, And Reconciliations

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Mclean County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

June 24, 2011



MCLEAN COUNTY  
FRANK COX, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2010

Revenues

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$	22,671
State Fees For Services:		
Finance and Administration Cabinet	\$	2,970
Sheriff Security Services		5,644
Patient Transport		132
Court Security		47,048
Cabinet for Health and Family Services		2,141
		57,935
Circuit Court Clerk:		
Fines and Fees Collected		5,461
Fiscal Court		25
County Clerk - Delinquent Taxes		6,959
Commission On Taxes Collected		119,823
Fees Collected For Services:		
Auto Inspections		3,341
Serving Papers		13,045
Carrying Concealed Deadly Weapon Permits		1,665
		18,051
Other:		
Tax Penalty and Fees		15,546
Miscellaneous		994
		16,540
Interest Earned		13
Borrowed Money:		
State Advancement		52,730
Total Revenues		300,208

The accompanying notes are an integral part of this financial statement.

MCLEAN COUNTY  
FRANK COX, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2010  
(Continued)

Expenditures

Operating Expenditures:

Personnel Services-

Deputies' Salaries	\$ 48,491	
KLEFPF	22,671	\$ 71,162

Contracted Services-

Advertising		520
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Materials and Supplies-

Office Materials and Supplies	1,109	
Uniforms	6,776	
Computer Supplies	3,677	11,562

Other Charges-

Conventions and Travel	379	
Dues	370	
Postage	2,542	
Carrying Concealed Deadly Weapon Permits	200	
Miscellaneous	1,422	
Law Enforcement Supplies/Training	7,490	
Court Security/Benefits	50,383	
Fiscal Court Summons Fees	2,390	
Phone	5,231	70,407

Debt Service:

State Advancement		52,730
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Total Expenditures	\$ 206,381
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Net Revenues	93,827
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Less: Statutory Maximum	70,668
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Excess Fees	23,159
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Less: Training Incentive Benefit	3,624
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Excess Fees Due County for 2010	19,535
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Payment to Fiscal Court - February 15, 2011	19,535
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Balance Due Fiscal Court at Completion of Audit	\$ 0
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The accompanying notes are an integral part of this financial statement.

MCLEAN COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2010 services
- Reimbursements for 2010 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2010

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MCLEAN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2010  
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent for the first six months and 16.93 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Mclean County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Mclean County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MCLEAN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2010  
(Continued)

Note 4. Drug Forfeiture Accounts

The Sheriff maintains two drug forfeiture accounts. One account is for forfeited property resulting from state and local drug convictions, and the other is for those forfeitures resulting from federal drug convictions.

A. Federal Forfeiture Drug Account

The Federal Forfeiture Drug account had a beginning balance of \$329,405 on January 1, 2010. Receipts during the year were \$4,153 and expenditures were \$33,043, resulting in an ending balance of \$300,515 as of December 31, 2009. The ending balance of \$300,515 consists of \$83,398 invested in certificates of deposits and \$217,117 cash.

B. State and Local Drug Forfeiture Account

The State and Local Drug Forfeiture account had a beginning balance of \$12,159 on January 1, 2010. Receipts during the year were \$95,108 and expenditures were \$7,031, resulting in an ending balance of \$100,236 as of December 31, 2010.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Kelly Thurman, Mclean County Judge/Executive  
The Honorable Frank Cox, Mclean County Sheriff  
Members of the Mclean County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Mclean County Sheriff for the year ended December 31, 2010, and have issued our report thereon dated June 24, 2011. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mclean County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2010-01 to be a material weakness.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Mclean County Sheriff's financial statement for the year ended December 31, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Mclean County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen  
Auditor of Public Accounts

June 24, 2011

COMMENT AND RECOMMENDATION



MCLEAN COUNTY  
FRANK COX, SHERIFF  
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2010

INTERNAL CONTROL - MATERIAL WEAKNESS:

2010-01 Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts, Expenditures,  
And Reconciliations

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Our review and evaluation of the Sheriff's internal controls disclosed a lack of adequate segregation of duties over receipts, expenditures, and reconciliations. The bookkeeper collects receipts for the office in addition to preparing deposits, approving daily checkout sheets prepared by another deputy, preparing, signing and mailing checks. Good internal controls dictate that the collection of receipts, disbursing of cash, purchasing authority, recording of transactions, and bank reconciling duties be segregated. Documented compensating controls were not in place to offset this control deficiency. We recommend the Sheriff segregate these duties or implement the following compensating controls.

The Sheriff or another employee who does not have access to bookkeeping records, cash receipts, cash disbursements, bank records or statements should periodically:

- Examine the daily checkout sheet and agree to the deposit ticket, cash receipts ledger and bank statement. Documentation may be evidenced by the reviewer initialing the aforementioned records noted.
- Compare the receipts and disbursements ledger to the monthly and quarterly reports and document comparisons.
- Review all checks written and compare to invoices, evidencing approval of invoice and checks by initialing document or some other method.
- Monthly bank reconciliations should be reviewed and the review should be documented.
- Perform occasional surprise cash counts.

Any compensating control implemented should be documented.

*Sheriff's Response: No response.*

